

# MANUFACTURING EXTENSION PARTNERSHIP

## Success Stories from the Field

### Mission Mountain Market

#### Montana Manufacturing Extension Center

#### Cost Analysis Helps Montana Mission Mountain Market Set Fees

##### Client Profile:

Montana Mission Mountain Market, located in Ronan, Montana, is a food processing incubator. It features a well-equipped, certified commercial kitchen and food lab available to fledgling food manufacturers that don't have the space or capital for the assortment of commercially-sized equipment they need to produce their products. Companies rent use of equipment on-site or drop-ship ingredients and have them prepared by kitchen staff at Montana Mission Mountain Market. Some companies rent space at the Market to conduct business and food preparation. They also get help with food labeling requirements, barcoding, and sanitation standards. The Market itself employs less than 20 people.

##### Situation:

As Montana Mission Mountain Market (the Market) prepared to open its doors for business, it sought advice about its facility and about reliable vendors of quality commercial kitchen equipment. Market managers wanted to determine the correct hourly rate to charge small companies for the use of various equipment and services. Following the same type of good business practice it recommends to clients, the Market asked the Montana Manufacturing Extension Center (MMEC), a NIST MEP network affiliate, to prepare a cost analysis of the kitchen facility to determine rates.

##### Solution:

MMEC provided the Market with information that helped it see the facility from an engineering perspective. MMEC made recommendations for such factors as how big doors should be and what dimensions enable a forklift to move around safely and efficiently. MMEC also shared information about equipment vendors and continued to share tips on useful equipment for consideration.

After making its decisions about vendors, equipment, and space requirements, the Market worked with MMEC to develop a cost analysis of the facility. MMEC engineers visited the facility and gathered cost data to build a model for benchmarking. They calculated overhead costs based on the horsepower, wattage, and/or gas used by equipment, in addition to the square footage required by that equipment. This data was combined with estimated use time, depreciation, and actual machine costs to derive a generalized cost breakdown by machine. Next, monthly facility overhead, payroll/benefits, and lease costs were entered into the model to derive a base hourly rate for kitchen use. The Market went a

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step further to help its customers by having MMEC engineers add a customer component to the model. It allows customers to add external costs like materials, shipping, distribution, and desired profit margin into the mix. This helps them to set final pricing of products using more complete costing information. Changes in revenue and baseline costs at the Market can be entered in the model to monitor the effectiveness of the fees. Customers report the price of the services as "very reasonable" and benefit from assistance with pricing as a result of the add-on feature to the model.

### **Results:**

Determined an effective hourly rate based on sound data.

Developed a fee rate sheet that reflects that rate plus costs for specialized services.

### **Testimonial:**

"The Montana Manufacturing Extension Center...put our dreams into reality through practical experience and expertise to help us visualize what the facility might look like. The cost analysis is a great tool for developing our co-packing fees. We can explore changes in revenue flow and baseline costs. In use, it's been very realistic."

Jan Tusick, Cooperative Development Specialist